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novus

INTERNATIONAL ACCOUNTING (IFRS)

Effects of the current macroeconomic development on the IFRS (consolidated) financial statements

Editorial

Dear Reader,

The reform of international corporate income taxation includes the introduction of global minimum taxation for large multinational companies and is to be transposed into German law by the end of 2023. In this edition of novus IFRS, we discuss the IASB Exposure Draft entitled ED/2023/1 "International Tax Reform – Pillar Two Model Rules", which grants a temporary exemption from accounting for deferred taxes under IAS 12 "Income Taxes" to mitigate the effects of this reform.

We also present the IASB's findings on the Post-Implementation Review of IFRS 9 and on the completion of another Disclosure Initiative project.

In view of the ongoing war in Ukraine, the IDW has published another update to its Technical Guidance on the impact of that war on corporate accounting and auditing.

In addition, the Accounting Standards Committee of Germany (ASCG) has published the draft of the amendment standard E-DRÄS 13, which provides for amendments to GAS 20 "Group Management Report" and GAS 21 "Cash Flow Statement". These include proposals for the inclusion of cash pool receivables and payables in the cash flow statement.

After ESMA published the common European audit focus areas for 2023 in October 2022, BaFin added another national focus area – relationships with related parties – to these focus areas in its December 2022 press release.

In this edition of novus IFRS, we have compiled these and other developments for you from the end of 2022 until today. If you have any questions on any of the topics, we will be happy to assist you.

We wish you a very Happy Easter.

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Global Minimum Taxation: IASB Publishes ED/2023/1 on Proposed Amendments to IAS 12

On January 9, 2023, the IASB published Exposure Draft ED/2023/1 "International Tax Reform – Pillar Two Model Rules", which proposes temporary relief in the accounting for deferred taxes under IAS 12 "Income Taxes" arising as a result of the planned implementation of the OECD's international tax reform.

The introduction of global minimum taxation is intended to ensure that multinational companies with worldwide consolidated sales of more than EUR 750 million will in future be subject to an effective income tax rate of at least 15 % in each jurisdiction in which they operate.

With Exposure Draft ED/2023/1, the IASB is responding to the concerns of various stakeholders regarding the potential impact that the upcoming implementation of the Pillar Two OECD Model Rules on minimum taxation will have on accounting for income taxes.

The amendments proposed by the IASB include the introduction of the following rules:

- temporary exemption from the requirement to recognize deferred tax assets and liabilities in connection with OECD second pillar income taxes;
- disclosure requirements on the use of the exemption for affected companies; and
- additional disclosure requirements if second pillar legislation has been introduced but has not yet entered into force.

In addition to Pillar 2 on minimum taxation, as described above, Pillar 1 includes a new system of allocating taxing rights to the tax jurisdictions where the largest multinational groups generate their profits.

The directive to ensure global minimum taxation was published in the Official Journal of the European Union on December 22, 2022, and member states must transpose it into their national law by December 31, 2023. The global minimum taxation is to apply to financial years beginning after December 31, 2023. You can find more information about global minimum taxation here:

Note: The exposure draft is available on the IFRS Foundation website under the following link.

The comment period, which was curtailed due to the urgency of the matter, ended on March 10, 2023. The temporary exemption is to be applicable immediately after publication of the (final) amendments and retrospectively in accordance with IAS 8. The disclosure requirements are to apply to reporting periods beginning on or after January 1, 2023.

IASB: ONGOING STANDARD-SETTING PROJECTS

Post-Implementation Review of IFRS 9 on Classification and Measurement

With the publication of the project report on December 21, 2022, the IASB completed its review of IFRS 9 "Financial Instruments" with regard to classification and measurement requirements. According to the outcome of the review, the requirements of IFRS 9 meet their accounting objectives and provide useful information to users of financial statements.

As part of the review, the IASB also identified areas for standard setting and research to further improve the information provided to users of financial statements.

The standard-setting project initiated by the IASB focuses on an entity's assessment of contractual cash flow characteristics of financial assets with ESG-related characteristics and on electronic cash transfers to settle a financial asset or financial liability. The proposed amendments from this project are expected to be published in a draft standard in the first quarter of 2023.

In addition, the IASB has included a research project in its work program that addresses the rules for applying the effective interest method to financial instruments measured at amortized cost and the rules regarding the modification of financial instruments.

Note: The IASB began its post-implementation review of IFRS 9 with regard to impairment in the second half of 2022; related information is expected to be published in the first half of 2023.

The IASB's final report on the Post-Implementation Review of IFRS 9 in relation to classification and measurement can be found under the following link:

IASB Completes Project to Improve Approach to Developing Disclosure Requirements in IFRS Accounting Standards

The IASB completed its project on "Disclosure Initiative – Targeted Standards – Level Review of Disclosures" on March 8, 2023, and published guidance for the development of disclosure requirements in IFRS accounting standards.

The guidance will be used in the future when developing disclosure requirements in IFRS accounting standards and aims to help companies provide more useful information to investors. It includes the following approach:

- engaging early with investors,
- developing disclosure requirements alongside recognition and measurement requirements,
- considering the digital reporting implications of new disclosure requirements,
- using disclosure objectives that explain investors' information needs; and
- supporting specific disclosure objectives with specific disclosure requirements.

A project summary and feedback statement from the IASB in response to feedback on the project were also published with the guidance.

Note: This project is one of several Disclosure Initiative projects to improve disclosures in financial statements. Only one Disclosure Initiative project is still pending – subsidiaries without public accountability.

The guidance is available on the IFRS Foundation's website under the following link:

IFRS INTERPRETATIONS COMMITTEE

Agenda Decisions of the IFRS Interpretations Committee

If the Committee is of the opinion that an issue addressed to the IFRS IC is not suitable as a basis for an interpretation, the decision not to include it in the work program is published in the IFRIC Update.

This "Tentative Agenda Decision" contains a description of the issue and the reasons for the rejection. After a comment period of at least 30 days, the IFRS IC adopts the final wording of the decision, including the reasons.

In some cases, the IFRS IC's rejection decisions also contain material statements on IFRS accounting (non-interpretations, non-IFRICs). The agenda decisions are expressly published by the IASB for information purposes only. Nevertheless, in the view of the IASB, users may not ignore these statements of the IFRS IC and may only deviate from them if there are strong reasons for doing so. In the period between November 18, 2022, and March 17, 2023, only one agenda decision was published. This was the November 2022 IFRIC Update to IFRS 16: Definition of a Lease – Substitution Rights.

The Committee addressed the question of the level at which it should be assessed whether a contract contains a lease if the contract relates to the use of more than one similar asset (100 batteries). In addition, the Committee addressed how to assess certain substitution rights of the supplier when there is a right to substitute, but the supplier would not receive any economic benefit if it exercised the right to substitute the asset throughout the period of use.

The Committee concluded that in this case, it is necessary to assess for each battery whether the contract contains a lease; each battery represents an identified asset. The supplier's right to replace a battery is not material throughout the useful life in this case.

IDW

IDW Updates its Guidance on the Impact of the Ukraine War on Financial Reporting and Audits again

Against the backdrop of the many challenges for companies resulting from the great uncertainties and risks arising from Russia's war of aggression on Ukraine, the IDW had already published Technical Guidance on September 30, 2022, which provides companies with specific assistance on accounting and reporting under both IFRS and the German Commercial Code (HGB) as of the reporting date September 30, 2022, and for subsequent reporting dates (in particular December 31, 2022).

In the updated Guidance published on December 22, 2022, the IDW addressed the following additional topics in relation to HGB and IFRS accounting:

- lowest value test: consideration of the increased energy costs on the presentation of the heating cost billing of enterprises of the real estate industry (HGB accounting),
- reclassification of financial assets due to a change in the business model as a result of the war in Ukraine,
- offsetting of energy procurement contracts taking into account the own use exemption under IFRS 9.2.4,
- relationship between scenario analysis in the context of determining impairment losses under IFRS 9 and disclosures on sensitivity under IAS 1.

Note: We have previously reported on the Technical Guidance on the Ukraine War published by the IDW in Issue No. 2 (2022) of our novus INTERNATIONALE RECHNUNGSLEGUNG (IFRS). The Guidance can be found on the IDW website.

Repeal of IDW RS HFA 25 and 26 and Amendment of IDW RS HFA 9 on Financial Instruments

Now that IFRS 9 "Financial Instruments" as the successor standard to IAS 39 "Financial Instruments: Recognition and Measurement" is now mandatory for all entities reporting under IFRS for financial years beginning on or after January 1, 2023, and thus now includes the insurance industry, the IDW announced on its website on February 9, 2023, that the FAB has rescinded the following pronouncements effective January 1, 2023:

- IDW RS HFA 25: Specific Issues on Accounting for Contracts for the Purchase or Sale of Non-Financial Items in Accordance with IAS 39,
- IDW RS HFA 26: Specific Issues on the Reclassification of Financial Assets in Accordance with the Amendments to IAS 39 and IFRIC 9 – Amendments of October/November 2008 and March 2009.

In addition, IDW RS HFA 9 "Specific Issues on Accounting for Financial Instruments Under IFRS" has been updated so that it now only contains comments on hedge accounting, since the provisions of IAS 39 can now only be applied in relation to hedge accounting. This is applicable if the reporting entity exercised the option available under IFRS 9.7.2.21 when applying IFRS 9 for the first time.

Note: The application issues for accounting for financial instruments in accordance with IFRS 9 are addressed in IDW RS HFA 48 "Specific Issues on Accounting for Financial Instruments Under IFRS" and in the IFRS module pronouncement IDW RS HFA 50.

ASCG

Publication of Draft Amendment Standard E-DRÄS 13

On January 6, 2023, the ASCG published draft amendment standard E-DRÄS 13, which proposes amendments to GAS 20 "Group Management Report" and amendments to GAS 21 "Cash Flow Statement". These are aimed in particular at formally adapting GAS 20 and GAS 21 to current legislation by extending the scope of the sector-specific disclosures on risk reporting to include securities institutions, payment institutions, e-money institutions and pension funds, as well as addressing user questions about GAS 21, in particular in connection with cash pooling.

With regard to GAS 21 "Statement of Cash Flows", amendments to the following provisions are proposed:

- recognition of cash inflows (or outflows) from grants and subsidies received (or awarded) in the cash flow statement of the grant recipient (as well as the grantor),
- recognition of cash flows in connection with the change in the basis of consolidation in relation to the cash and cash equivalents acquired (or disposed of),
- inclusion of cash pool receivables (or cash pool payables) in cash and cash equivalents in accordance with GAS 21, and
- recognition of cash flows from changes in cash pool receivables (or cash pool payables).

E-DRÄS 13 proposes that cash pool receivables are generally not to be included in cash and cash equivalents unless they are readily convertible to cash and are only subject to immaterial risk of value fluctuations.

In addition, it is proposed that cash changes in cash pool receivables or payables should be allocated to cash flows from financing activities if they are not to be included in cash and cash equivalents.

Note: The draft can be accessed on the ASCG website under the following link. Comments on the draft can be sent to the GASC until April 28, 2023.

EU Endorsement Status Report

The following table contains standards and interpretations (endorsement) not yet adopted and (if available) adopted by the EU as of our last novus INTERNATIONAL FINANCIAL STATEMENTS (IFRS). The basis is the latest EU Endorsement Status Report published by EFRAG on January 31, 2023 (as of March 17, 2023).

Changes in standards	Effective date IASB	EU Endorsement
IAS 1: Classification of liabilities as current or non-current (January 23, 2020) and IAS 1: Classification of liabilities as current or non-current – deferral of the effective date (July 15, 2020) and IAS 1: Non-current liabilities with covenants (October 31, 2022)	01.01.2024	Outstanding
IFRS 16: Lease liabilities from sale and leaseback transactions (September 22, 2022)	01.01.2024	Outstanding

BAFIN

BaFin Balance Sheet Review 2023: Focus on Related Party Transactions

BaFin announced in its press release on December 5, 2022, that it will focus on examining the related party disclosures in the 2022 IFRS consolidated financial statements of publicly traded companies. In addition to the common European audit priorities published by ESMA on October 28, 2022:

- climate-related risks,
- direct financial impact of the Russian invasion of Ukraine and
- the macroeconomic environment,

these disclosures are therefore the national audit priorities.

BaFin will take these priorities into account in the risk-oriented selection of the companies to be audited and will increasingly select the priorities as areas to be audited in the financial statements of companies drawn from the sample.

Related party information is highly relevant to financial statement users and their decisions (IAS 24.5-8), and errors in this area are generally considered material by the regulator.

In addition to the completeness and accuracy of the related party disclosures in the notes, companies should also properly fulfill their accounting obligations in this regard. This includes keeping records of related party transactions and documenting the control system established for this purpose with regard to the accounting process. The established and documented control system should ensure that all transactions with related parties are recorded completely and correctly, that all transactions with the identified related parties have been reviewed to determine that they are at arm's length and that they are disclosed in the notes.

In addition to all transactions with related parties, records should also be kept in a "sub-ledger" as to why certain contractual partners were not classified as related parties in the case of unusual or material transactions. This applies, for example, to contractual partners who have a close business relationship with the company or the management in key positions, even if these contractual partners themselves or their relatives only hold an equity interest in the company that is significantly less than 20 %.

The duty to obtain information lies with the Management Board or the Supervisory Board in order to be able to substantiate and verify the completeness of the related party disclosures.

Note: BaFin's press release is available on its website

Regarding the European Common Enforcement Priorities (ECEP) published by ESMA on 28.10.2020, please see the presentation in Issue No. 2 (2022) of our novus INTERNATIONAL ACCOUNTING.

Error Findings by BaFin

The following is a list of BaFin's error findings published from November 18, 2022, to March 17, 2023. The aim is to avoid errors in these areas.

Note: BaFin's publications on the error findings are available online under www.bundesanzeiger.de (section "Accounting/ Financial Reports" – "Error Announcements".

In this period, the only violation of IFRS 10.20 in conjunction with IFRS 10.7(a) was published on December 19, 2022, and related to consolidation without control.

ESMA

ESMA Publishes 2022 ESEF Taxonomy

ESMA published the XBRL taxonomy files for the 2022 European Single Electronic Format (ESEF) and an update to the ESEF "Conformance Suite" (test files) on December 22 to facilitate the implementation of the ESEF regulation. The ESEF 2022 taxonomy is based on the 2022 IFRS taxonomy, which is updated annually by the IFRS Foundation.

Issuers have an option to use these newly published files or the ESEF taxonomy files provided by ESMA in December 2021 with respect to annual financial reports for financial years beginning on or after January 1, 2022.

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